

FISMA REPORT

CALIFORNIA NATURAL RESOURCES AGENCY CALIFORNIA ENERGY COMMISSION

(Energy Resources Conservation and Development Commission)

ORGANIZATION CODE: 3360

INTRODUCTION

In accordance with the Financial Integrity and State Manager's Accountability Act (FISMA) of 1983, the California Energy Commission (Energy Commission) submits this report on the review of our systems of internal control for the biennial period ended December 31, 2009.

Should you have any questions please contact Mary Lam, Audit Coordinator, at (916) 657-3843 or mlam@energy.ca.us.

BACKGROUND

Created by the Legislature in 1974, the Energy Commission is responsible for:

- Forecasting future energy needs and maintaining historical energy data.
- Licensing thermal power plants 50 megawatts or larger.
- Promoting energy efficiency by setting the state's appliance and building efficiency standards and working with local government to enforce those standards.
- Supporting public interest energy research that advances energy science and technology through research, development, and demonstration programs.
- Supporting renewable energy by providing market support to existing, new, and emerging renewable technologies; providing incentives for small wind and fuel cell electricity systems; and providing incentives for solar electricity systems in new home construction.
- Implementing the state's Alternative and Renewable Fuel and Vehicle Technology Program.
- Planning for and directing state response to energy emergencies.

In addition, the Energy Commission was awarded \$314.5 million from the American Reinvestment and Recovery Act of 2009 (ARRA). The purpose of the funding is to stimulate the economy, create and retain jobs in California, and achieve lasting and measurable energy benefits.

The Energy Commission's mission is to assess, advocate and act through public/private partnerships to improve energy systems that promote a strong economy and a healthy environment.

To achieve its mission and responsibilities, the Energy Commission set its objectives to continue to serve as the State of California's energy policy agency, making energy policy recommendations based on relevant, objective information and analyses that promote affordable energy supplies, improve energy reliability, and enhance health, economic well-being and environmental quality.

The Energy Commission does not have an internal audit unit that performs internal control reviews. However, the Energy Commission's Executive Management Team (including management representatives from technical divisions and administrative, legal, governmental, and media offices) is responsible for establishing policies and procedures and ensuring compliance.

VACANT POSITIONS

The Energy Commission has taken significant actions to ensure its compliance with Government Code 12439 to successfully fill positions before they have been vacant for six consecutive months. For example, vacancies are managed through a monthly review and evaluation meeting held by the Energy Commission's Executive Management Team. This process ensures a diligent effort is made to fill every vacancy in a timely manner. Timelines are established for advertising vacancies, reviewing applications, interviewing applicants, and making job offers. Since our last FISMA report, the Energy Commission has designed a new "Careers at the Energy Commission" web site that features Energy Commission staff in their work environment, established a list server for new positions and exams, and highlights the interesting and diverse work performed at the Energy Commission. Additionally, the Energy Commission has increased its attendance at job fairs, professional association events, and conferences, in an attempt to market the Energy Commission's programs, to advertise the available positions, and to entice individuals to file for exams. Exam processes have been streamlined including a web based application process to simplify the hiring process.

Section 12439 also recognizes that when positions do remain vacant for six months or more, the controller *shall* re-establish those positions on August 15th if they have been abolished on July 1st. Such positions include those that are “necessary for the state to satisfy any licensing requirements adopted by a local, state, or federal licensing or other regulatory agency” as well as those that are “directly involved in services for public health, public safety, or homeland security.” All of the Energy Commission’s positions fall into these two categories because its staff is dedicated to supporting the Energy Commission’s mission to ensure adequate supplies of energy for California and to reduce wasteful use of energy within the state. In the Energy Commission’s enabling legislation (the Warren-Alquist Act -- Public Resources Code Sections 25000 et seq.) the Legislature notes:

The Legislature finds and declares that overdependence on the production, marketing, and consumption of petroleum based fuels as an energy resource in the transportation sector is a threat to the energy security of the state due to continuing market and supply uncertainties. In addition, petroleum use as an energy resource contributes substantially to the following public health and environmental problems: air pollution, acid rain, global warming, and the degradation of California's marine environment and fisheries. [§ 25000.5.]

. . . [and]

The Legislature hereby finds and declares that electrical energy is essential to the health, safety and welfare of the people of this state and to the state economy, and that it is the responsibility of state government to ensure that a reliable supply of electrical energy is maintained at a level consistent with the need for such energy for protection of public health and safety, for promotion of the general welfare, and for environmental quality protection. [§ 25001.]

. . . [and]

The Legislature finds and declares that clean and reliable energy is essential to the health of the California economy and of vital importance to the health and welfare of the citizens of the state and to the environment. [§ 25300 subd. (a).]

. . . [and]

The Legislature further finds and declares that the state government requires at all times a complete and thorough understanding of the operation of energy markets, including electricity, natural gas, petroleum, and alternative energy sources, to enable it to respond to possible shortages, price shocks, oversupplies, or other disruptions. [§ 25300 subd. (c).]

... [and]

The Legislature further finds and declares that timely reporting, assessment, forecasting, and data collection activities are essential to serve the information and policy development needs of the Governor, the Legislature, public agencies, market participants, and the public. [§ 25300 subd. (d).]

These and many other statutes describe the objectives of Energy Commission programs recognizing that public health and safety is a principal reason for the creation of programs administered by the Energy Commission and its staff, including the unique one-stop licensing program for thermal power plants with capacity in excess of 50 megawatts that incorporates all of the public health based requirements of state, local, and federal regulatory agencies. Therefore, the Energy Commission complies with both the letter and the spirit of Government Code 12439, to eliminate positions which are no longer necessary as shown by the failure of agencies to fill them for long periods of time, and by our diligent efforts to aggressively begin recruitment efforts when vacancies occur.

RISK ASSESSMENT

In accordance with OSAE's guidance and for the purposes of this report, the following were performed:

- Held a management discussion with the Energy Commission's Executive Management Team. In addition, interviews and emails were also used to identify risks/issues.
- Key personnel from the Executive Office and the Financial Services Office identified the highest risks/issues and corrective actions to address them. Only the highest risks/issues are included in the report.
- The Executive Office reviewed the highest risks/issues and the corrective actions and concurred.

- No testing of the existing internal controls was performed. However, the Energy Commission is in the final stages of obtaining a contractor that will be reviewing the Energy Commission's systems of internal control.
- The Executive Office made a determination of the adequacy of the Energy Commission's systems of internal controls.
- Started the development and maintenance of a Corrective Action Plan to address the identified risks/issues. The Corrective Action Plan will be submitted no later than 30 days after the submission of this report.

EVALUATION OF RISK AND CONTROLS

Issue 1: Recruitment, Training, and Retention

One of the single greatest challenges the Energy Commission has in managing its staff is the struggle to recruit, train, and retain qualified staff. The Executive Management Team recognizes the necessity of developing, nurturing and maintaining a highly talented and experienced workforce that can implement critical energy goals and objectives for California.

The Energy Commission is currently experiencing an above average amount of staff who are approaching retirement age. These core staff are made up of senior management and technical experts possessing vast institutional and program knowledge of the Energy Commission. Losing these core staff without documenting or transferring their knowledge base to mid level and entry level staff could cause significant disruptions. This may lead to the loss of institutional memory, duplication of re-learning, and delays in implementing programs. The Energy Commission will need to be proactive in backfilling pending vacancies and taking a systems approach to recording and transferring knowledge within the organization.

Corrective Action:

Maintain a well trained workforce that is equipped to meet the energy challenges of California.

Issue 2: Increasing Workload

The Energy Commission continues to experience an increase in workload without the commensurate increase in resources. Over the years, the Energy Commission has been given additional responsibilities resulting from an increasing concern over the energy industries and new legislative mandates. In addition, there has been an increasing retirement rate of core staff holding vast institutional and program knowledge of Energy Commission programs. As a result, the Energy Commission is administrating and managing more contracts, grants, and loans to carry out the increasing energy concerns and implementing new legislative mandates with minimal increases in staffing levels. This coupled

with newly hired staff that lack institutional and program knowledge creates a significant concern. As the current Energy Commission staff continue to absorb additional workload while losing key staff to retirement, the Energy Commission is at risk of staff burnout, low morale, and deterioration in the quality of work. The concern is that the staff that are more likely to develop burnout are the Energy Commission's best, most productive staff. They are more prone to burnout as they immerse themselves in their job, and tend to personalize work issues when they cannot maintain the quality level they are used to performing due to heavy workloads. In response, the Energy Commission will attempt to obtain additional staffing resources and/or continuously reprioritize its workload to shed activities that can be deferred until higher priority work can be completed. Regardless, the Energy Commission must prevent burnout, low morale, and deterioration in work products and deliverables.

Corrective Action:

Secure adequate resources to respond to new federal and state mandated programs and activities.

Issue 3: Effects of American Recovery and Reinvestment Act of 2009

The Energy Commission received \$314.5 million for energy efficiency and renewable energy programs through the ARRA. With the lead of the U.S. Department of Energy, the Energy Commission is tasked with administering four ARRA funded programs: the State Energy Program, the Energy Efficiency Conservation Block Grant Program, Appliance Rebate Program, and Energy Assurance Planning. With the exception of the State Energy Program, the other three programs are new to the Energy Commission and required the development of strategic planning guidelines, policies, and procedures. In addition, there are Federal requirements to ensure accountability, transparency, and reduction in fraud, waste, and abuse of the ARRA funds. Specifically, significant Federal reporting requirements are present to capture not only fiscal data but job creation, job saved data, and other Department of Energy performance metrics. Since ARRA funds are not permanent, the Energy Commission received minimal staffing resources, primarily through temporary, limited term positions to implement these new programs. The Energy Commission will look to hire consultants to assist with the monitoring, evaluation, verification and reporting requirements that accompany federal ARRA funds. Additionally, existing and new staff will be trained to provide the proper oversight and monitoring efforts to ensure project success and commensurate safeguarding of ARRA funds.

Corrective Action:

Effectively implement ARRA funds and provide for proper stewardship, transparency and accountability.

Issue 4: Updating Policies and Procedures

The Energy Commission currently has some policies and procedures in place, however, due to limited staffing resources, these policies and procedures have not been updated regularly to reflect current practices. With an increasing retirement rate, the Energy Commission is at risk of not providing adequate policy and procedure information to new staff that could lead to declines in the quality of work on Energy Commission programs and activities, as well as delays in program implementation, work products and deliverables. The Energy Commission has devoted substantial resources to developing business policies on a wide variety of subjects, but needs to re-emphasize and update these policies for existing and new staff. The Executive Management Team recognizes the importance of a clear, cohesive, and up-to-date library of policies and procedures and the need to ensure that staff are adequately informed on best business practices. The Energy Commission needs to continue to review and update their policies and procedures and ensure staff are informed on how to access and use the Energy Commission's written policies and procedures.

Corrective Action:

The Energy Commission has hired a contractor to develop a policies and procedures manual for the Public Interest Energy Research Program with the intent to expand the document to incorporate all program activities at the Energy Commission. This document will be maintained and updated on a regular basis to ensure Energy Commission policies and procedures are relevant and current.

CONCLUSION:

In the Energy Commission's Executive Management Team's opinion, the Energy Commission existing systems of internal control are adequate except for the risks/issues mentioned above and acknowledge improvements to the existing internal controls can be made.